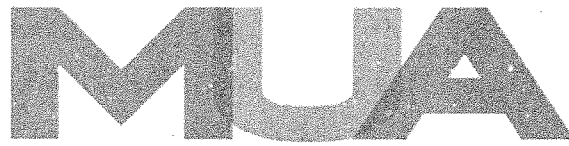


The
Management
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BML 305 : AUDITING

DATE: 12TH APRIL 2017

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. **Question ONE** is compulsory.
5. Answer any other **THREE** questions.
6. **Question ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE

Read the Case Study below carefully and, answer the questions that follow:

- (a) You are the lead auditor of Tunajiweza Ltd. You are carrying out a review of the accounts for the financial year ended 31st December 2014 with a view of signing the audit report. During this review, you have noted the following matters:
- (i) No depreciation has been provided on plant and machinery for the financial year ended 31st December 2014. This is because the directors of Tunajiweza Ltd. feel that the value of the plant and machinery is in excess of the amount at which it is stated in the financial statements.
 - (ii) Some sections of the company's stocktaking records were accidentally destroyed. Consequently, the value attributed to stocks as at 31st December 2014 is an estimation by the directors of Tunajiweza Ltd.

Required:

- (i) What would be your audit opinion with regard to the matter referred to in (i) above? (6 marks)
 - (ii) Draft an audit report expressing your specific reservations with regard to (ii) above (6 marks)
- (b) (i) Explain what is an audit peer review? (2 marks)
- (ii) State and briefly explain the objectives of an audit peer review (6 marks)
- (c) The information acquired by the auditor from his client in the course of his professional work should not be disclosed to any third party except where consent has been obtained from the client.

Required:

Explain five circumstances under which an auditor can disclose such information to an appropriate authority without client's permission (5 marks)

QUESTION TWO

- a) Outline the professional guidelines that would assist the external auditor in avoiding being unduly dependent on a single client. (5 marks)
- b) Identify and briefly explain the statutory and ethical matters you would consider before accepting appointment as an auditor of a company. (5 marks)
- c) Describe the various types of physical controls (5 marks)

QUESTION THREE

- (a) Your audit firm has been appointed to audit the books of Riverside Limited. You are the lead auditor in the current financial year ending 31st December 2014. During the engagement you have noted the following risk areas; payroll expenses, administrative expenses and fixed assets. You are required to brief the audit team on the audit procedures in relation to the following;

- i. Payroll expenses (3 marks)
- ii. Fixed assets (3 marks)
- iii. Administrative expenses other than the payroll expenses (3 marks)

- (b) Outline the respective responsibilities of an entity's management and the external auditor with respect to the prevention and detection of fraud and error. (6 marks)

QUESTION FOUR

Towards the end of an audit, it is common for the external auditor to seek a letter of representation from the management of the client company.

Required:

- a) Explain why auditors seek letters of representation. (5 marks)
- b) List the matters commonly included in the letter of representation. (6 marks)
- c) Explain why it is important to discuss the content of the letter of representation at an early stage during the audit. (4 marks)

QUESTION FIVE

- a) In the context of a computer based accounting system, explain the meaning of the following terms:
- (i) Application controls; (4 marks)
 - (ii) General controls (4 marks)
- b) Explain the importance of having proper systems documentation (7 marks)

QUESTION SIX

- (a) What is an "interim audit"? (2 marks)
- (b) Identify any three circumstances under which an interim audit would be ideal. (3 marks)
- (c) List and briefly explain five disadvantages of an interim audit. (5 marks)
- (d) Differentiate between statutory and private audits (5Marks)